

Message Text

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ACTION ARA-20

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 PA-03 PRS-01 USIA-15 AGR-20 L-03

H-03 IGA-02 NSC-10 SS-15 STR-08 CEA-02 RSR-01 /177 W

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R 301509Z AUG 73

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 9205

LIMITED OFFICIAL USE SECTION 1 OF 2 BOGOTA 7169

E O 11652: NA

TAGS: EGEN

SUBJ: ECONOMIC PERFORMANCE OF COLOMBIAN ECONOMY FOR FIRST HALF
CY73

1. BEGIN SUMMARY: FISCAL PERFORMANCE FOR THE FIRST HALF OF THIS YEAR HAS BEEN DISAPPOINTING. IF PRESENT TRENDS CONTINUE FULL YEAR DEFICIT MIGHT BE AS HIGH AS 50 PERCENT ABOVE LAST YEAR'S DEFICIT. REAL REVENUE COLLECTIONS SINCE 72 APPARENTLY ARE INCREASING AT A SLOWER RATE THAN INCREASES IN REAL INCOME. PRICES FOR THE FIRST SEVEN MONTHS OF THIS YEAR HAVE INCREASED BY 20 PERCENT AND HAVE ALREADY EXCEEDED THE TOTAL INCREASE FOR LAST YEAR.

2. FOREIGN SECTOR PERFORMANCE HAS BEEN GOOD. LED BY FAVORABLE COFFEE PRICES MOST EXPORTS REGISTERED STRONG GAINS DURING THE FIRST HALF OF THE YEAR. NET RESERVES INCREASED BY 35 PERCENT THROUGH JULY OF THIS YEAR. WHILE IT MAY HAVE SOME SHORT TERM BENEFIT THE CURRENT GOC EXCHANGE RATE POLICY OF LETTING THE RATE OF INFLATION OUTSTRIP CHANGES IN THE EXCHANGE RATE COULD CREATE PROBLEMS OVER THE LONGER TERM.

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3. THE GOVT HAS ANNOUNCED MEASURES THIS WEEK TO REDUCE TOTAL

GOVT EXPENDITURES BY 10 PERCENT DURING THE SECOND SEMESTER. GIVEN SHORT TIME REMAINING IN THIS FISCAL YEAR PROSPECTS FOR REAL SUCCESS OF THIS MOVE ARE DOUBTFUL. IT IS ALSO LIKELY THAT THE FISCAL CONSTRAINTS IMPOSED BY POOR REVENUE PERFORMANCE WILL AFFECT THE GOC'S ABILITY TO ABSORB FOREIGN ASSISTANCE. PRIOR TO THE GOC'S ANNOUNCED INTENTION TO REDUCE EXPENDITURES BY 10 PERCENT THE GOC AND USAID/C HAD AGREED IN PRINCIPLE TO TRANSFERRING BETWEEN 15 TO 20 PERCENT OF PLANNED CY73 AID DISBURSEMENTS TO CY74 PARTLY BECAUSE OF FISCAL SITUATION AND PARTLY BECAUSE OF PROGRAM IMPLEMENTATION PROBLEMS. WE HOPE THESE TARGETS WILL NOT HAVE TO BE REDUCED FURTHER BUT THE SITUATION IS UNCLEAR. CONCEIVABLE TOTAL REDUCTIONS IN EXPENDITURES FOR THIS FULL YEAR IN THE AID SUPPORTED SECTORS ALONE ARE NOT LIKELY TO CONTRIBUTE SIGNIFICANTLY TO FIGHTING INFLATION GIVEN THE SIZE OF THE BUDGET DEFICIT PROJECTED. THESE FISCAL CONSTRAINTS IF CARRIED OVER TO NEXT YEAR WOULD PRESUMABLY AFFECT GOC'S ABILITY TO ABSORB FOREIGN ASSISTANCE. END SUMMARY.

4. BUDGETARY DEVELOPMENTS: THE FISCAL PERFORMANCE FOR THE FIRST HALF OF THIS YEAR IS DISAPPOINTING. ON THE ASSUMPTION THAT THE TRENDS ESTABLISHED FOR THE FIRST HALF WILL CONTINUE FOR THE ENTIRE YEAR THE MISSION IS NOW PROJECTING AN OVERALL DEFICIT OF SOME 5.6 BILLION PESOS (EXCLUDING DEBT AMORTIZATION), WHICH REPRESENTS A 50 PERCENT INCREASE FROM LAST YEAR. DURING THE FIRST HALF OF THIS YEAR TOTAL EXPENDITURES INCREASED BY ABOUT 24 PERCENT WHILE REVENUES INCREASED BY ONLY 21 PERCENT IN NOMINAL TERMS: HOWEVER ON THE SAME BASIS CUMULATED REVENUES THROUGH JULY SUGGEST REVENUES MAY INCREASE BY 25 PERCENT FOR THE ENTIRE YEAR. UNFORTUNATELY EXPENDITURE FIGURES FOR THE SAME PERIOD ARE NOT AVAILABLE AT THIS TIME. BETWEEN 1969 AND 72 THE OVERALL DEFICIT IN CENTRAL GOVT OPS HAS INCREASED FROM 1.1 TO 3.7 BILLION PESOS. EXTERNAL FINANCING FOR THE SAME PERIOD INCREASED FROM 1.3 TO 3.2 BILLION PESOS. ALMOST ALL THE INCREASES IN THE OVERALL DEFICITS REGISTERED DURING THIS PERIOD WERE FINANCED BY FOREIGN BORROWINGS. AMORTIZATION PAYMENTS ON FOREIGN BORROWINGS HAVE INCREASED RAPIDLY TO NEARLY .8 BILLION PESOS IN 72.

5. IN REAL TERMS THE FISCAL SITUATION LOOKS EVEN LESS PROMISING. THE MISSION HAS CALCULATED THE INCOME ELASTICITY OF REAL REVENUE COLLECTIONS FROM 70 THROUGH PROJECTIONS FOR FULL YEAR 73. FROM LIMITED OFFICIAL USE

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THESE CALCULATIONS IT APPEARS THAT THE INCOME ELASTICITY OF TOTAL CURRENT REVENUE HAS BEEN DECLINING, TURNED SLIGHTLY NEGATIVE IN 72, AND IS PROJECTED TO BE EVEN WORSE IN 73. THUS REAL REVENUE COLLECTIONS THRU 72 HAVE BEEN INCREASING AT A SLOWER RATE THAN INCREASES IN REAL INCOME. IN 72 THE INCOME ELASTICITIES OF ALL MAJOR CATEGORIES OF CURRENT REVENUES (INCOME TAXES, SALES TAXES, CUSTOMS, ETC) WERE NEGATIVE.

6. PRICES AND MONEY SUPPLY: STIMULATED BY INCREASES IN NET FOREIGN EXCHANGE RESERVES AND A LARGE GOVT DEFICIT, PRICES FROM JAN THRU JULY INCREASED BY 19.6 PERCENT FOR WORKERS AND 15.3 PERCENT FOR EMPLOYEES. INFLATION THIS YEAR THUS FAR HAS ALREADY EXCEEDED THE 14 PERCENT REGISTERED LAST YEAR. FULL YEAR ESTIMATES ARE RUNNING AS HIGH AS 30 PERCENT. HOWEVER IT SHOULD BE NOTED THAT RECENT GOVT POLICIES TO INCREASE IMPORTS MAY MODERATE THIS TREND. IMPORT LICENSES FOR THE FIRST FIVE MONTHS OF THE YEAR HAVE AVERAGED \$15 MILLION MORE PER MONTH WHEN COMPARED TO THE JULY THRU DEC PERIOD OF LAST YEAR. THE SHARPEST

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LAB-06 SIL-01 OMB-01 PA-03 PRS-01 USIA-15 AGR-20 L-03

H-03 IGA-02 RSR-01 NSC-10 SS-15 STR-08 CEA-02 /177 W

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R 301509Z AUG 73

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 9206

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INCREASES IN DOMESTIC PRICES ARE STILL BEING REGISTERED BY FOODSTUFFS IN BOGOTA. FOR THE FIRST SEVEN MONTHS OF THIS YEAR THE MONEY SUPPLY INCREASED BY 10 PERCENT AND TOTALLED 32.9 BILLION PESOS AS OF JULY 28, 1973.

7. FOREIGN SECTOR: COFFEE RECEIPTS CONTINUE TO REGISTER STRONG GAINS ATTRIBUTABLE PRIMARILY TO FAVORABLE EXPORT PRICES. THEY REACHED \$287 MILLION AT THE END OF JULY WHICH REPRESENTS A 40 PERCENT INCREASE OVER THE SAME PERIOD FOR LAST YEAR. MINOR EXPORT RECEIPTS ALSO INCREASED SUBSTANTIALLY BUT AT ABOUT HALF THE RATE OF INCREASE OF COFFEE. MINOR EXPORT RECEIPTS TOTALLED \$230 MILLION AT THE END OF JULY. GIVEN THE STRONG

EXPORT PERFORMANCE, BOTH GROSS AND NET FOREIGN EXCHANGE RESERVES INCREASED RESPECTIVELY TO \$519.5 MILLION AND \$470.3 MILLION IN THE END OF JULY. NET RESERVES SO FAR THIS YEAR HAVE INCREASED BY ABOUT 35 PERCENT.

8. WHILE DOMESTIC PRICES HAVE INCREASED BY ABOUT 20 PERCENT THIS YEAR THE SELLING RATE OF EXCHANGE HAS ONLY DEPRECIATED BY 3.9 PERCENT. IT REACHED 23.7 PESOS PER DOLLAR AT THE END OF JULY. THE GOC HAS STATED ITS LIMITED OFFICIAL USE

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INTENTION TO HOLD DOWN THE RATE OF DEPRECIATION OF THE PESO THIS YEAR AS AN ANTI-INFLATIONARY MEASURE. HOWEVER, IT IS NOT ALL CLEAR WHAT WEIGHT IMPORTED COMMODITIES HAVE ON THE OVERALL CONSUMER PRICE INDEX. IF DOMESTIC PRICES CONTINUE TO GROW FASTER THAN EXCHANGE RATE DEPRECIATIONS PROBABLY THERE WILL BE RENEWED PRESSURE BY EXPORTERS TO INCREASE THE DEPRECIATION OF THE PESO OR INCREASE SUBSIDIES ON EXPORTS WHICH ALSO WOULD INCREASE GOC BUDGET DEFICITS.

THIS POLICY COULD ALSO STIMULATE AN INCREASE IN BLACK MARKET ACTIVITY AND RESULT IN A CORRESPONDING FOREIGN EXCHANGE LOSS TO THE GOC.

9. RECENT GOVERNMENT POLICY PRONOUNCEMENT: PERHAPS AS A RESULT OF A SIMILARLY PESSIMISTIC FISCAL ASSESSMENT BY THE GOC ITSELF, THE FINANCE MINISTER ANNOUNCED THIS WEEK PLANS TO REDUCE CURRENT AND INVESTMENT EXPENDITURES FOR THE SECOND HALF OF THIS YEAR BY TEN PERCENT FOR ALL CENTRAL GOVERNMENT EXPENDITURES ESTIMATED AT ABOUT 26 BILLION PESOS BY THE FINANCE MINISTER. IF THIS PLAN WERE FULLY IMPLEMENTED THE OVERALL DEFICIT COULD BE REDUCED BY ALMOST 3 BILLION PESOS. THE IMPLEMENTING DETAILS REMAIN TO BE WORKED OUT. HOWEVER, GIVEN THE FACT THAT EXPENDITURES ARE USUALLY HIGHER IN THE SECOND SEMESTER AND THAT THERE ARE ONLY FOUR MONTHS LEFT TO IMPLEMENT THE PLAN IT IS DOUBTFUL THAT THE FULL TEN PERCENT REDUCTIONS WILL BE ACHIEVED. IN ANY EVENT WE VIEW THIS AS A STEP IN THE RIGHT DIRECTION. MORE FISCAL MEASURES WILL BE REQUIRED IF INFLATION IS TO BE REDUCED TO MORE MANAGEABLE LEVELS.

10. EFFECTS ON THE AID PROGRAM: PRIOR TO THE GOC'S ANNOUNCED INTENTIONS TO REDUCE EXPENDITURES USAID/C AND THE GOC HAD BEEN NEGOTIATING REDUCTIONS IN THE AID DISBURSEMENT TARGETS FOR 1973. WE HAVE TENTATIVELY AGREED TO MUTUALLY REDUCE THE GOC AND USG OVERALL

CONTRIBUTIONS BY 15 TO 20 PERCENT IN CY 73 AND CARRY
THESE CORRESPONDING AMOUNTS OVER TO CY 74. (THESE
DEVELOPMENTS WILL BE REPORTED SEPARATELY). THE MISSION
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HOPES THAT THE GOC WILL NOT FIND IT NECESSARY TO REDUCE
ITS INVESTMENT EXPENDITURES IN THE FOUR A.I. D.
SUPPORTED SECTORS ANY FURTHER. THUS FAR WE HAVE BEEN
TOLD THAT THESE PRIORITY SECTORS WILL NOT BE EXEMPT
FROM FURTHER CUTS. HOWEVER, MINFIN INFORMED A.I.D.
DIRECTOR, AUGUST 28, THAT REDUCTIONS WILL BE SELECTIVE
RATHER THAN ACROSS THE BOARD. ACCORDINGLY WE PRESUME
THERE IS STILL ROOM FOR NEGOTIATION TO PROTECT
HIGHEST PRIORITY ELEMENTS OF DEVELOPMENT PROGRAMS
SUPPORTED BY A.I.D.

11. COMMENT: IT IS CLEAR THAT BASED ON ECONOMIC
PERFORMANCE AND GOVERNMENT PRONOUNCEMENTS THUS FAR
THIS YEAR THAT COLOMBIA ABILITY TO ABSORB FOREIGN
ASSISTANCE WILL BE LIMITED BY THE NEED TO MEET THE FISCAL
CONSTRAINTS IMPOSED BY POOR REVENUE PERFORMANCE. IF
THESE FISCAL CONSTRAINTS ARE CARRIED OVER TO NEXT YEAR
GOC ABILITY TO ABSORB FOREIGN ASSISTANCE COULD ALSO
BE AFFECTED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 30 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BOGOTA07169
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973086/aaaaaeli.tel
Line Count: 252
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 17 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17-Jan-2002 by martinjw>; APPROVED <08 FEB 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC PERFORMANCE OF COLOMBIAN ECONOMY FOR FIRST HALF CY73
TAGS: EGEN
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005